

**MARKET CONDUCT EXAMINATION
OF
PACIFICARE OF WASHINGTON, INC.**

**7525 SE 24TH STREET
MERCER ISLAND, WA 98040**

January 1, 1996 – July 31, 2001



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The Honorable Mike Kreidler
Washington State Insurance Commissioner
Insurance Building
P.O. Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed of:

PacifiCare of Washington, Inc., NAIC #48038
7525 SE 24th Street
Mercer Island, WA 98040

This report of examination is respectfully submitted.

This was a full scope examination of the companies' activities between January 1, 1996 and July 31, 2001.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Leslie A. Krier, Nancy L. Barnes, and George J. Lazur of the Washington State Office of Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of PacifiCare of Washington, Inc. during the course of this market conduct examination.

I certify that the following is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This market conduct examination report is by exception and additional practices, procedures, and files subject to review during the examination were omitted from the report if no improprieties were indicated. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code. PacifiCare of Washington is referred to in this report as “PCW,” “PacifiCare,” or “the Company.”

Scope

Time Frame

The examination covered the company’s operations from January 1, 1996 through July 31, 2001. This was the second market conduct examination of PacifiCare of Washington, Inc. and was performed in the OIC’s Seattle office and on-site at the company’s offices in Mercer Island, Washington and Hillsboro, Oregon. In addition, examination of records also took place at four (4) medical group offices in Vancouver, Washington; Olympia, Washington; Lacey, Washington; and Federal Way, Washington.

Matters Examined

The OIC examined PacifiCare’s commercial managed care and point of service health plans. The examination did not include review of the Company’s Secure Horizons (Medicare), dental or life plans. The examination of the managed care and point of service health plan business included a review of the following areas:

Company Operations and Management	Advertising
Complaints	Agent Activity
New Business/Quotes/Sales Activity	Provider Contracts
Contracts/Member Handbooks	Claims

Sampling Standards

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

92 % Confidence Level
+/- 5 % Mathematical Tolerance.

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the OIC. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as “met.” The standard in the area of agent licensing and appointment will not be met if any violation is identified. The standard in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards, which look for the existence of written procedures, or a process to be in place, the standard will be met based on the examiner’s analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

COMPANY OPERATIONS AND MANAGEMENT

PacifiCare of Washington, Inc. (PCW) began operating in Washington State on March 6, 1986. Its Certificate of Authority was as a Health Maintenance Organization (HMO), and its territory of operation was Clark County. On February 28, 1994, PCW purchased Preferred Health Resources (PHR). PHR consisted of a Health Care Service Contractor (HCSC), Network Health Plan, and Network Management, Inc., a third party administrator. On June 30, 1994, PacifiCare of Washington was dissolved. Assets were transferred to Network Health Plan. PCW's HMO license was transferred to PacifiCare of Oregon (PCO). On October 1, 1994, Network Health Plan changed its name to PacifiCare of Washington. As of March 31, 1999, PCW is owned by PacifiCare Health Plan Administrators (PHPA). PHPA is owned by PacifiCare Health Systems, Inc.

In 1997, the Company began integrating operations with PCO at the Northwest Customer Service Center in Hillsboro, Oregon and at the PCO offices in Lake Oswego, Oregon. Currently, operations continue to be conducted in three locations: Mercer Island, Washington; Hillsboro, Oregon; and Lake Oswego, Oregon.

Mercer Island Operations:

Sales Activity	Advertising
Rates/Underwriting	Contract Administration
Provider Contracting	Network Management
Credentialing	Utilization Management
Medical Management	Regulatory Affairs
OIC Filings	

Hillsboro Operations:

Agent Activity	Complaints
Claims	

Lake Oswego Operations:

Marketing Communications	Underwriting
Contract File Storage	OIC Filings

A Board of Directors governs the Company. They meet on a quarterly basis to discuss Company issues and to conduct oversight of Company operations. They also hold special meetings as needed. PCW holds an annual meeting for all shareholders as directed in the Bylaws. The meeting is held in February. At this time, new board members are elected. The Company maintains minutes from all meetings in its corporate offices. The current Board of Directors, elected to one-year terms, is:

Bradford A. Bowlus
Sam Ho, MD

Donald E. Costa
Gregory W. Scott

There were no amendments to the Bylaws or Articles of Incorporation during the examination period. However, the examiners did review amendments prior to the examination period and found that the Company practice is to file the amendments with the Secretary of State and the Office of Insurance Commissioner in a timely manner.

Territory of Operations

Between 1996 and 1999, PacifiCare of Washington operated in 22 counties in Washington State. These counties were: Island, Kitsap, Mason, Grays Harbor, Thurston, Lewis, Cowlitz, Clark, Pierce, King, Snohomish, Skagit, Chelan, Okanogan, Douglas, Ferry, Stevens, Pend Oreille, Lincoln, Spokane, Whitman and Walla Walla. In 2000, the Company ceased doing business in all Eastern Washington counties and several Western Washington counties. Currently, PCW operates in all areas of eight (8) counties in Washington State. The counties are Mason, Grays Harbor, Thurston, Lewis, Clark, Pierce, King, and Snohomish.

The examiners did not find any evidence that the Company is operating outside of its stated territory of operations.

Findings

The Company Operations and Management portion of the examination is designed to provide a view of the Company structure and operations. This section of the report is not based on sampling techniques.

The Company passed the following Operations/Management Standards without comment:

Standard	Reference
<u>Operations/Management Standard #1:</u> The Company must facilitate the examination process by providing its accounts, records, documents, and files to the examiners upon request.	RCW 48.03.030(1), RCW 48.44.145(2)
<u>Operations/Management Standard #2:</u> The Company is required to be registered with the Office of Insurance Commissioner prior to acting as a health care service contractor in the State of Washington.	RCW 48.44.015(1)
<u>Operations/Management Standard #3:</u> The Company is required to report to the OIC any changes to its registration documents, including Articles of Incorporation, Bylaws, and Amendments at the same time as submitting such documents to the Secretary of State.	RCW 48.44.013

The following exceptions were noted:

Operations/Management Standard #4: The Company must maintain adequate, accessible, consistent and orderly records. Reference: RCW 48.05.280.

Findings: Passed with comment.

The Company could not locate 69 files that were requested as part of the New Business/Quotes/Sales Activity review. Further discussion of this issue is included in that section.

Operations/Management Standard #5: No person in this state shall act as or hold himself out to be a health maintenance organization as defined in RCW 48.46.020 without being duly registered with the Commissioner. Reference: RCW 48.46.027(1).

Findings: Failed.

During review of the advertising materials, the examiners discovered a brochure that incorrectly depicts PacifiCare as a health maintenance organization (HMO). The HMO Plan brochure is distributed to employees of King County. PacifiCare of Washington is registered as a health care service contractor in Washington. It was registered to operate as a HMO in the state but that authorization expired March 6, 1995.

ADVERTISING

The Company provided the examiners with a copy of its advertising file for the period January 1, 1996 through December 31, 1998. The purpose of this review was to determine compliance with Washington advertising regulations.

The following exceptions were noted:

Advertising Standard #1: The Company's advertising materials are published in accordance with all Washington Advertising Regulations. Reference: WAC 284-50-010 through WAC 284-50-230 and RCW 48.44.110 through RCW 48.44.140.

Findings: Failed. 85.3% compliance.

Code Section	Total Population	Sample Size	# of Violations	Percent in Violation
WAC 284-50-200	292	292	25	8.6%
WAC 284-50-050(1)	292	292	2	0.7%
WAC 284-50-060(2)	292	292	1	0.3%
WAC 284-50-070(1)	292	292	2	0.7%
WAC 284-50-110(1)	292	292	10	3.4%
WAC 284-50-120(1)	292	292	2	0.7%
WAC 284-50-140(2)	292	292	1	0.3%
TOTAL	292	292	43	14.7%

The following is an explanation of the errors noted above:

- **WAC 284-50-200 The Company maintains a complete advertising file.** The file presented to the examiners contained 267 pieces of advertising material. In addition to the hard copy materials and tapes, the examiners reviewed the Company's Internet web site as part of the advertising file. There were 25 items missing from the advertising file. When asked, the Company produced all 25 items. See Appendix I.
- **WAC 284-50-050(1) The format and content of an advertisement shall avoid deception or the capacity or tendency to mislead.** One (1) advertisement stated there was "no premium to pay" in the headline. Actually, the cost depends on the number of family members enrolled. One (1) advertisement stated there was no paperwork to complete. If an out-of-area claim was made, forms must be completed and submitted for payment. See Appendix II.
- **WAC 284-50-060(2) Deceptive words, phrases, or illustration prohibited.** The brochure titled "The PacifiCare Difference" states that the Company offers a "comprehensive health care benefit package." The language in the brochure implies that the plan being offered is an all-inclusive benefits package that was designed based on the wants and needs of membership. WAC 284-50-060(2) prohibits the use of words such as "comprehensive" when used in a manner that exaggerates any benefits beyond the terms of a policy. See Appendix II.
- **WAC 284-50-070(1) Exceptions, reductions, and limitations to be disclosed.** Brochures describing The Choice Plan and The HMO Plan, both of which are invitations to contract, do not include exceptions, reductions, and limitations of the plans. See Appendix II.
- **WAC 284-50-110 Use of statistics.** The examiners found ten (10) pieces of advertising where statistics were quoted without listing the source. These pieces cited the size of the provider network or the number of members without giving a source. See Appendix II.
- **WAC 284-50-120(1) Identity of plan or number of policies.** Brochures describing The Choice Plan and The HMO Plan, both of which are invitations to contract, do not include a plan code or other identifying feature as required by WAC 284-50-120(1). See Appendix II.
- **WAC 284-50-140(2) Jurisdictional licensing and status of insurer.** An advertisement in the Spokesman-Review dated November 5, 1996 states that "PacifiCare is the health plan of choice for state employees." This statement creates the impression that state employees are endorsing PacifiCare. This violates WAC 284-50-140(2). See Appendix II.

COMPLAINTS

Prior to July 1997, PacifiCare of Washington (PCW) handled appeals and grievances for all Washington members except Clark County. PacifiCare of Oregon (PCO) handled Clark County member complaints. When the administrative functions of PCW and PCO were merged into the Northwest Customer Service Center, handling of complaints and grievances moved to the Hillsboro office. Complaint databases for PCW and PCO were integrated as well.

The complaint, appeal, and grievance process is fairly involved. It includes a number of steps and several personnel in the process.

The Customer Service Department handles inquiries, complaints, and pre-appeals. The Customer Service Associate gathers information about the case and tries to resolve the dispute. If a resolution is not reached at this level, the paperwork is forwarded to an Appeals & Grievance Associate who sends appeal paperwork to the complainant for completion. When this paperwork is received from the complainant, a Pre-Review Associate reviews and attempts to resolve the complaint before a formal appeal is filed.

If a resolution is not reached, the formal appeals process begins. The first step is Level I, which requires input from all parties, including the medical group, and is reviewed by the medical director. If upheld, the member has the option of asking for a Level II review, then a Level III review. Level III is non-binding mediation. This level is only available for amounts in excess of \$1,500.00.

The Company filed its Appeals and Grievance Procedures on December 19, 1995, with an effective date of January 1, 1996. Subsequently, PCW filed updated Appeals and Grievance Procedures on December 27, 1999. These procedures were approved and were effective December 30, 1999.

The Company enters all complaints, appeals, and grievances from members into its complaint database. There were 3,094 entries between January 1, 1996 and July 31, 2001. The complaints initiated by the OIC were also included in this total. There were 406 OIC complaints in the database. The examiners selected a random sample of 50 general complaints and 77 OIC complaints from the period 1996 to 1999 for review.

Company Complaints

The 50 sample complaints represent the following operating functions:

Type	Number	Overtured	Upheld	No Decision
General	15	12	3	0
Administrative	5	3	1	1
Referral	10	7	3	0
Denials	19	14	4	1
Provider	1	0	0	1

Type	Number	Overtured	Upheld	No Decision
TOTAL	50	36	11	3

Seventy-two percent (72%) of the complaint files reviewed had the initial determination overturned. These were the result of initial decisions made by the medical groups. This is discussed in more detail in the Claims section of this report.

The examiners did not note any trends in the complaints reviewed.

In reviewing the complaint denial letters sent to complainants on behalf of the Company, the examiners noted that each letter contains a sentence that states “While PacifiCare does not provide health care services, we are greatly concerned whenever one of our members has a problem with the services received through one of our contracting hospitals, doctors or medical groups.” This verbiage is misleading to the recipient. It implies that PacifiCare is not responsible for the actions of its providers or for the providers’ decisions concerning services under the plan. The Company states that the intent of the statement is to inform members that PCW is not a health care provider.

Subsequent Event: The Company has agreed to clarify the letter so that members are aware of their right to take appropriate action when its contracted providers are not providing the appropriate services and care under the plan.

OIC Complaints

During the examination period, the OIC received 406 complaints about PacifiCare. Of these, 58 complaints were related to Medicare coverage or federal employee coverage. These complaints were excluded from the total population.

The examiners selected a sample of 77 complaints for review from the period 1996 through 1999. Two (2) complaints were reviewed as part of the Company complaint sample but were included in this section to determine timeliness of response.

The breakdown of the sample shows that the largest number of OIC complaints was in the general category (46%). This category includes delays in claim processing or problems dealing with the Company or the medical group. As with the Company complaint file review, the number of complaints concerning the referral and denial process followed by the medical groups created a high number of complaints (45% combined).

Type	Number	Overtured	Upheld	No Decision
General	35	35	0	0
Administrative	6	4	1	1
Referral	18	14	3	1
Denials	17	14	2	1
Provider	1	0	0	1

Type	Number	Overtured	Upheld	No Decision
TOTAL	77	67	6	4

Sixty-seven (67) of the 77 sample OIC complaint files had the original decision overturned (87%). The majority of these complaints dealt with issues concerning delegated medical groups.

The Company passed the following complaint standards without comment:

Standard	Reference
<u>Complaint Standard #1:</u> The Company has filed a copy of its procedures for review and adjudication of complaints with the OIC.	RCW 48.43.055
<u>Complaint Standard #2:</u> The Company has a means to disclose to an enrollee or prospective enrollee a copy of the grievance procedures for claims and for service denials as well as dissatisfaction with care. <i>(Effective until July 1, 2001)</i>	RCW 48.43.095(1)(h)
<u>Complaint Standard #3:</u> The Company complies with procedures for health care service review decisions. <i>(Effective December 30, 1999)</i>	WAC 284-43-620
<u>Complaint Standard #5:</u> The Company maintains a fully operational, comprehensive grievance process. <i>(Effective July 1, 2001)</i>	RCW 48.43.530
<u>Complaint Standard #6:</u> The Company provides enrollees access to independent review services to resolve disputes. <i>(Effective July 1, 2001)</i>	RCW 48.43.535

The following exceptions were noted:

Complaint Standard #4: Response to communications from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. Reference: WAC 284-30-650, Technical Advisory T 98-4.

Findings: Failed. 88.9% compliance.

The examiners reviewed the OIC complaint sample to determine the length of time from receipt to response to the OIC. Seventeen (17) of the 77 sample complaint files (22.1%) had responses dated more than 15 working days after receipt by PCW. This is violation of WAC 284-30-650. See Appendix III.

The examiners reviewed additional complaints in OIC records for the period January 1, 1999 through July 31, 2001. Improvement is noted; however, response to the OIC is still outside of the 15-business day requirement. Eleven (11) of 175 complaints (6.3%) during this time period were in violation of WAC 284-30-650.

AGENT ACTIVITY

There were 863 agents appointed with PacifiCare of Washington during the examination period. Thirty-eight (38) were account executives employed by the Company.

Licensing and appointment of agents is the responsibility of Membership Accounting Services in the Northwest Customer Service Center in Hillsboro. The unit handles paperwork for both PCW and PCO.

The Company has written procedures for licensing and appointing agents. The examiners reviewed two (2) versions of these procedures. The first version reviewed was dated July 15, 1997. This version of the procedures addressed the Oregon licensing and appointment requirements, but not the Washington requirements. For example, the procedures stated "All agents must be appointed with PacifiCare within 15 days of group acceptance." This is true in Oregon, but in Washington, an agent must be appointed prior to soliciting any business on behalf of the Company (RCW 48.44.011(2)).

Both the membership accounting and underwriting procedure manuals state that a copy of the agent's license and PCW appointment are to be included in the underwriting file. The examiners could not find any evidence that this was consistently being done. Discussions with Company personnel confirmed the examiners' findings.

Procedural inadequacies continued for the period October 1, 1999 to March 31, 2000. An internal audit conducted by PacifiCare Health Systems (PHS) during the same time frame found the same problems as those noted by the examiners. These included:

- Incomplete agent files.
- Agents and agencies that were not licensed and/or appointed were receiving commission payments.
- Agents were obtaining quotes prior to appointment.

Based on this internal audit, PCW changed its agent licensing procedures June 5, 2000. At that time, all appointments were "frozen" and no quotes were released to agents unless they held a valid appointment with PCW. The Company obtained appointment information from the OIC and cross-referenced this data with information that it maintained in its system. The Sales Director was required to sign off on all appointments. All non-appointed agents were contacted and required to submit appointment paperwork in order to continue doing business with PCW. This project was completed July 30, 2000.

The examiners reviewed the Company's July 16, 2001 version of licensing and appointment procedures. This version accurately described the requirements and the process that the Company must follow in order to comply with Washington law.

A random sample of 382 policy files was reviewed to determine if the agent was licensed and appointed prior to soliciting business for PCW. The agent licensing and appointment dates

were compared to the date the new business or renewal quotes were issued to the agent. The sample consisted of the following:

Source	Total Files	Number Examined
Sold Groups	596	44
Quotes	6,392	300
Account Executives	38	38
TOTAL	7,026	382

The examiners found that the Company did not follow its stated procedures. PCW allowed quotes to be given to non-resident agents without the agent showing proof of Washington license or PCW appointment. In addition, the examiners found that the Company's records were not complete, and it was difficult to determine who the agent was that requested the quote.

The examiners also discovered that the Company failed to ensure its account executives were properly licensed and appointed. The account executives work with agents in the sales process. They are responsible for discussing plans and benefits, and they may actually participate in sales presentations. As such, these employees must be licensed to sell disability insurance in Washington and be appointed with PCW. It appears that the Company did not require that the Oregon account executives be licensed and appointed in Washington. Since PCW's Clark County business is managed through the Company's Oregon locations, any Oregon-based account executives must be licensed in Washington and appointed with PCW.

The following exceptions were noted:

Agent Activity Standard #1: The Company ensures that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way. Reference: RCW 48.44.011, RCW 48.17.060(1) and (2).

Findings: Failed. 90.3% compliance.

Agent Activity Standard #2: The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company. Reference: RCW 48.17.160(1).

Findings: Failed. 70.2% compliance.

The following table is a summary of the examiners' findings:

Source of Sample	Total Reviewed	No WA license or PCW	No PCW appointment	# of Non-Resident agents, no	# of Non-Resident agents, no
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		appointment		license or appointment	appointment
Sold Groups	44	2	5	0	4
Quotes	300	12	99	9	47
Account Executives	38	23	10	21	2
TOTALS	382	37	114	30	53

A listing of agents not properly licensed or appointed is attached as Appendix IV.

NEW BUSINESS/QUOTES/SALES ACTIVITY

The Company issued 6,988 new and renewal quotes between January 1, 1996 and December 31, 1998. The examiners randomly chose 103 files to review. The following areas were reviewed:

- Rates charged and quoted to groups to ensure that premium was calculated using filed rates and factors.
- The quote file to ensure that the benefits requested were the benefits quoted and/or sold.
- Agents to ensure that the agent requesting the quote was properly licensed and appointed. (See section on Agent Activity.)
- Account Executive information to ensure that the Account Executive working on the quote was properly licensed and appointed. (See section on Agent Activity.)

The examiners requested a sample of 175 quote files. The original request was for 50 inforce renewal files (Washington), 25 inforce renewal files (Clark County) and 100 new quotes. The actual number of files received was 103. There were three (3) Washington renewal files for Secure Horizons business excluded from the sample because this line of business was outside of the scope of the examination. The Company could not locate quotes files for 69 of the sample files requested.

The examiners asked the Company to explain why 69 files could not be located. Procedures were not in place to direct the marketing/sales department and underwriting department on retention and storage methods. Procedural inadequacies and the lack of internal control of records were confirmed by the Company's Director of Underwriting.

Quote retention procedures were changed in July 1998. Paper copies of all quotes are now retained onsite at the Company or in remote storage. Both the underwriting and marketing/sales departments have been instructed to maintain files for a minimum of three years.

The examiners found that the rate calculation worksheets were missing from many of the underwriting files. The rate calculation worksheet is the documentation showing the factors

used to calculate rates. Neither the examiners nor the Company were able to duplicate many of the rate calculations.

In addition to the rate calculation discrepancies, the examiners found instances where the Company used unfiled benefits in the quote process. Errors occurred in both the Washington and Oregon offices.

During review of the 233 contracts and member handbooks, the examiners also found that there were 25 contract and rider forms that had not been filed between January 1, 1996 and December 31, 1998. Twenty (20) were PCO (Clark County) forms, two (2) were PCW forms, and both PCW and PCO used three (3).

The examiners noted the following exceptions:

Rate and Form Filing Standard #1: All contract forms and all rates have been filed with the Office of Insurance Commissioner prior to use. Reference: RCW 48.44.040, WAC 284-43-920.

Findings: Failed. 81.5% compliance.

Company	# of Violations	Rate Overcharged	Rate Undercharged	Unfiled Benefits	Missing Information
PCW Groups	17	7	3	6	1
PCO (Clark County) Groups	20	9	4	5	2
Forms	25	0	0	25	0
Totals	62	16	7	36	3

Note: Three (3) groups had two (2) violations.

Appendix V contains a complete listing of the rate and form filing violations found in the review of the PCW and PCO groups. Appendix VI contains a listing of the forms that were not filed.

CONTRACTS AND MEMBER HANDBOOKS

The PacifiCare offices in Oregon issue contracts. The Company issues large and small group contracts as well as Secure Horizons and conversion contracts. The Company does not write individual contracts.

Contracts are either managed care or point of service plans. Point of service plans allow the member to self-direct care in or out of the selected provider network. Managed care contracts require that a member seek most treatment through a selected managed care network or provider group.

The following documents comprise a contract at PCW:

- Administrative Agreement
- Master Application
- Member Handbook
- Medical benefit description document
- Documents describing each optional benefit selected by the group
- For Clark County groups only, an Endorsement to Medical & Hospital Subscriber Agreement.

When a group is sold, the application, enrollment forms and premium check are received in the Marketing Department and forwarded to the Underwriting Department. Underwriters confirm the benefits and rates applied for and prepare an approval letter to the employer. The case file is forwarded to Membership Accounting where the contract data and enrollment information is entered into the computer system. The enrollment information is electronically sent to the Office Services Department of PacifiCare Health Systems in California. PHS produces identification cards for the group members. The file then goes to Marketing Communications in Lake Oswego where employee materials are assembled and mailed to the employer.

Each group receives an administrative agreement with a customized cover sheet, a member handbook, a medical benefit description document and a copy of the completed master group application form. Description pages for each optional benefit chosen are also included in the packet. Each enrolled employee receives a member handbook and medical benefit description page for the plan chosen, including any optional benefits.

Clark County group contracts, administered by PCO, consist of a subscriber agreement document and Attachment A. Attachment A contains the benefits, exclusions and limitations of the specific plan purchased by the group. The subscriber agreement documents contain the contract definitions, eligibility, termination, and general contract provisions.

Prior to January 1, 2001, contracts were written by PCW Regulatory Affairs for all Washington groups except those located in Clark County. The Clark County contracts were written by personnel at PCO and then sent to the Regulatory Affairs Department to be filed with the

Washington OIC. During the examination process, the examiners found that there were no controls in place to ensure that other member materials, such as handbooks and benefit summary pages for Clark County members, were submitted to the OIC for approval. The Company recognized this deficiency and moved all contract writing and filing responsibilities to Regulatory Affairs at PCW.

When approved by the Washington OIC, the appropriate document is sent to a vendor for printing. The printed copies are sent to Marketing Communications for distribution to the groups.

The examiners reviewed a total of 233 contractual documents that were in use during the period January 1, 1996 to December 31, 1998. An additional 19 documents in use during 2000 and 2001 were also reviewed.

The following exceptions were noted:

Contracts and Member Handbooks Standard #1: All contracts must contain mandated benefit provisions and conform to prescribed format standards. Reference: Chapters 48.43 and 48.44 RCW, Chapters 284-43, 284-44, 284-51, 284-52, and 284-53 WAC.

Findings: Failed.

- **RCW 48.44.210 Group health care service plan contracts – Coverage of dependent child not to terminate because of developmental disability or physical handicap.** Eight (8) contracts reviewed state that the reason for continuation of coverage for a non-self supporting child is “mental retardation.” The phrase “mental retardation” is more limiting than the phrase “developmental disability” used in RCW 48.44.210. The eight (8) contracts also state that the member must submit a letter from their attending physician to verify the dependent’s condition. This language is more limiting than RCW 48.44.210, which does not limit the verification to be from the attending physician.

Total population: 122 contracts and endorsements

Sample size: 122 contracts and endorsements

Number of violations: 8

Percent in compliance: 93.4%

See Appendix VII.

- **RCW 48.44.212 Coverage of dependent children to include newborn infants and congenital anomalies from moment of birth – Notification period.** There were eight (8) contracts that required enrollment for newborn children, without any exceptions being noted. RCW 48.44.212(2) states that the contract may only require notification of birth if payment of additional premium is required.

Total population: 122 contracts and endorsements
Sample size: 122 contracts and endorsements
Number of violations: 8
Percent in compliance: 93.4%

See Appendix VIII.

- **RCW 48.44.420 Coverage for adopted children.** There were four (4) contracts that required enrollment for adopted children, without any exceptions being noted. RCW 48.44.420(2) states that the contract may only require notification of placement for adoption if payment of additional premium is required.

Total population: 122 contracts and endorsements
Sample size: 122 contracts and endorsements
Number of Violations: 4
Percent in Compliance: 96.7%

See Appendix IX.

- **RCW 48.44.330 Reconstructive breast surgery.** Eight (8) summary pages and two (2) contracts contained language that did not specifically state in the cosmetic surgery exclusion that reconstructive breast reduction on the non-diseased breast is allowed after mastectomy.

Total population: 122 contracts and endorsements
Sample size: 122 contracts and endorsements
Number of violations: 10
Percent in compliance: 91.8%

See Appendix X.

- **RCW 48.44.342 Mental health treatment – Waiver of preauthorization for persons involuntarily committed.** Twenty-seven (27) contracts, benefit summary pages, and handbooks do not include information that preauthorization is waived for involuntary commitment for mental health treatment.

Total population: 122 contracts and endorsements
Sample size: 122 contracts and endorsements
Number of violations: 27
Percent in compliance: 77.9%

See Appendix XI.

- **RCW 48.43.093 Health carrier coverage of emergency medical services – Requirements – Conditions.** The examiners found one (1) handbook and two (2) contracts that directed members to call the carrier and wait for a callback in an emergency situation. These documents are in violation of RCW 48.43.093(1)(a).

Total population: 38 contracts and endorsements
Sample size: 38 contracts and endorsements
Number of violations: 3
Percent in compliance: 92.1%

See Appendix XII.

- **RCW 48.43.115 Maternity services – Intent – Definitions – Patient preference – Clinical sovereignty of provider – Notice to policyholders – Application.** The examiners found that conversion contracts contained an exclusion stating “Hospital charges for newborn well-baby nursery care in excess of 3 days for a normal birth and 5 days for a cesarean section” will not be covered. There were three (3) contracts and one (1) endorsement containing this language. This language violates the requirements of RCW 48.43.115(3)(a) and (b). The Company stated that there was supposed to be an endorsement that deleted this exclusion, but Company personnel could find no evidence that the endorsement had been filed with the OIC or used with conversion contracts at any time.

Total population: 122 contracts and endorsements
Sample size: 122 contracts and endorsements
Number of violations: 4
Percent in compliance: 96.7%

See Appendix XIII.

During the examination period, there were several statutes and regulations in effect at various times that required health carriers to allow direct access by female participants to those services and practitioners that specialize in women’s health care issues, without need of a referral. In 1995, RCW 48.42.100 statutorily defined what services would be covered under this law and the requirements to comply. WAC 284-43-100, effective September 1, 1996, contained rules clarifying the statute previously in place. This regulation was repealed February 22, 1998 and was replaced by WAC 284-43-250. The newest regulation was effective February 22, 1998 and revised January 24, 2000. In this report, the examiners have listed the appropriate regulation for the time period being covered:

1. RCW 48.42.100 Women’s healthcare services – Duties of health care carriers. See Appendix XIV.

2. WAC 284-43-100 Health carrier standards for women's right to directly access certain health care practitioners for women's health care services. Effective September 1, 1996 through February 22, 1998. See Appendix XV.
 3. WAC 284-43-250 Health carrier standards for women's right to directly access certain health care practitioners for women's health care services. Effective February 22, 1998, revised January 24, 2000. See Appendix XVI.
- Language in 11 forms violated WAC 284-43-100(2) and nine (9) forms violated WAC 284-43-250(1) by requiring that a female member obtain preauthorization from her primary care physician prior to seeking treatment from a women's health care provider. All 20 forms also violate RCW 48.42.100(5)(a).
 - One (1) form violated RCW 48.42.100(3). Language in this form stated that hormone replacement therapy could only be obtained from a primary care physician. This is restrictive.
 - There were 17 contracts and endorsements that stated a member could directly access only those women's healthcare providers within their primary care physician's network. This is in violation of WAC 284-43-100(3)(b).
 - The Company failed to include instructions about direct access to women's healthcare providers in two (2) of their conversion contracts. This violates WAC 284-43-100(4).
 - Three (3) contracts state that the member must use the facilities and ancillary services of their primary care provider. This is in violation of WAC 284-43-250(3)(b).

The following table summarizes these violations:

Code Section	Total Population	Sample Size	# of Violations	Percent in Compliance
RCW 48.42.100(3)	122	122	1	99.2%
RCW 48.42.100(5)(a)	122	122	20	83.6%
WAC 284-43-100(2)	84	84	11	86.9%
WAC 284-43-100(3)(b)	84	84	17	79.8%
WAC 284-43-100(4)	84	84	2	97.6%
WAC 284-43-250(1)	38	38	9	76.3%
WAC 284-43-250(3)(b)	38	38	3	92.1%

- **WAC 284-44-030 Contract format required.** There were 15 forms that included a disclaimer text box that was added to the Table of Contents page in small typeset. These 15 forms are in violation of WAC 284-44-030(1). There were 40 violations of WAC 284-44-030(3) where the form number was not located in the lower left corner as required. The form number on these 40 forms was either missing, on the back page, in the lower right,

used a different number than the filed number, or the form contained multiple form numbers. See Appendix XVII.

Code Section	Total Population	Sample Size	# of Violations	Percent in Compliance
WAC 284-44-030(1)	252	252	15	94.0%
WAC 284-44-030(3)	252	252	40	84.1%

- **WAC 284-44-040 Contract standards required.** There were three (3) contracts that contain language under exclusions that could unreasonably restrict payment of claims. The exclusion reads: “Any services the member receives while not covered by the Plan, or for which no charge is made, or for which a charge is made.” Taken literally, the last section of this exclusion states that any claim where a charge is made or where a charge is not made would not be covered. This would result in every claim being appealed and would unreasonably delay the processing of the claim.

Total population: 122 contracts and endorsements
Sample size: 122 contracts and endorsements
Number of violations: 3
Percent in compliance: 97.5%

See Appendix XVIII.

PROVIDER CONTRACTS

The Company uses a combination of primary medical groups (PMG) and individual providers to make up its network. Some of the PMGs have contracts that allow them to administer the contracts for those members who have chosen their network. These are known as Delegated Medical Groups (DMG). Contracting responsibilities for these providers takes place in the Network Management Department of the Mercer Island office and the Provider Services Department in the Lake Oswego office. The Lake Oswego office is responsible for working with providers in Clark County.

Provider Oversight and Contract Filing

In Washington, the Network Management Department develops and writes all provider contracts for all areas except Clark County. When new provider contract forms are needed, they are created in Network Management and then sent to PacifiCare Health Systems (PHS) for review by corporate legal counsel. Network Management is also responsible for negotiating with new providers and with existing providers for renewal of their contracts. This process includes credentialing and recredentialing of providers. Credentialing is done by PacifiCare Credentialing Inc. in California. Once credentialing is completed, the paperwork is sent to a peer review group who accepts or rejects the provider’s application.

Clark County provider contracts are negotiated by PacifiCare of Oregon's Network Management Department. Essentially the same process is followed for new and renewing providers. It should be noted that Clark County providers are issued Oregon contracts, with an addendum changing the governing contract state to Washington. In reviewing the Clark County provider contracting files, it was noted that the addendum was missing from all files that the examiners reviewed. The examiners also found that the PCO contracts issued to Clark County providers had not been filed with the OIC.

Provider Contract Review

OIC records indicate that there were 55 provider contract forms filed between January 1, 1996 and July 31, 2001. The Company provided 39 generic forms in use from 1996 to 1998 for review:

- There were 19 Washington provider contracts in use during 1996 – 1997.
- There were 13 Washington provider contracts in use during 1998.
- There were seven (7) PacifiCare of Oregon contract forms in use during 1996 – 1998 for Clark County.

In addition to the generic forms, there were specific contract forms for Delegated Medical Groups (DMGs). There were 20 DMGs between 1996 and 1998. While the examiners did not review contracts for all 20, they did review seven (7) contracts for four (4) DMGs that were in effect during the examination period.

The examiners also reviewed 11 provider contract files to determine if PCW used filed forms when contracting with providers. All 11 were providers for Clark County.

To comply with requirements of RCW 48.44.020 and WAC 284-44-240, PCW filed an amendment containing the required hold harmless and insolvency provisions. This form, OIC4 (4/94), was approved by the Washington OIC on May 2, 1994. It was attached to all provider contracts until form OIC5 (5/94) was approved on October 4, 1994. OIC5 changed the Company name from Network Health Plan to PCW and was in use until May 1, 1998 when new provider contract forms were filed and approved to comply with Subchapter C, Chapter 284-43 WAC.

The examiners did not find any provider contract forms filed by PacifiCare of Oregon that were in use prior to May 1, 1998. Six (6) of the 1998 forms in use for Clark County providers had been filed by PCW. Of the six (6) forms, four (4) were similar to the generic Oregon provider contract forms given to the examiners for review. These four (4) forms contained different numbers from the filed form and changed the governing state law from Oregon to Washington. The examiners also found a form titled "Attachment to the Medical Group Services Agreement," changing the governing state from Oregon to Washington, but did not find a filing for this form. The Company advises that this form was to be attached to all

provider contracts, but the examiners did not find the form in any of the provider contract files that were reviewed.

In addition to reviewing contracts for compliance with filing and provision statutes and regulations, the examiners reviewed the contracts to ensure that definitions and provisions complied with various statutes and regulations. The examiners found that the provider contract language concerning emergency medical care was in violation of code requirements. There were five (5) Washington contract forms that did not include a definition of emergency medical treatment that complied with the definition in RCW 48.43.005(11) and WAC 284-43-130(6).

Provider Directory

The Examiners reviewed four (4) provider directories in use during the examination period. They are:

- Washington Medical Providers Directory
- Washington Specialist Providers Directory
- Oregon Directory of Primary Care Physicians and Specialists
- Chiropractic Providers Directory

The examiners found that the directories were well organized, and each appeared to include the current provider network information. They did not find any providers who no longer had contracts with the Company, and there were updates included that added new providers. The Oregon directories did not include any extraneous information, just the names and contact information for the providers. The Washington directories contained information on how to use the plan as well as instructions on how to seek care.

The Washington Medical Providers Directory (WAPCBKT600002 9/98) includes instructions on seeking treatment when an emergent or urgent situation arises. This is found inside the back cover. The instructions for emergencies and urgent care either in area or out of area state that the member should make an attempt to contact the plan first, then call 911 if the provider is unavailable if the member believes that waiting for a call back will jeopardize their health. This language violates RCW 48.43.093(1)(a), which states that a carrier may not deny services if a reasonably prudent person believes an emergency exists.

The Specialist Providers Directory for Washington, dated November 1998, includes a page that discusses Women's Health Care Access and Things to Consider. Under Things to Consider, PCW states:

“Women should be attentive to the hospital affiliation of their Women's Health Care Provider and compare it to the hospital affiliation of their Primary Care Provider. If the hospitals are not the same, women should consider which facility they are more likely to use. **Based on this decision, it may be necessary to select a new Primary Care**

Provider or Women's Health Care Provider. It is important to remember that Primary Care Provider changes are made the first of the following month after PacifiCare has received the request. You must receive preauthorization from your primary medical group for all hospital services.”

This language violates WAC 284-43-250(3)(b), which states that the carrier must allow the female member access to ANY provider that has a contract with the carrier.

Provider Policy and Procedure Manual

The Company maintains a Provider Policy and Procedure Manual for both the point of service and managed care providers. The provider contracts state that the providers must follow the policies and procedures outlined in the manual or face possible termination. There were two (2) sections containing information for providers that do not comply with Washington insurance code.

Section E of the manual covers referral authorization. The manual states that a referral is needed for a mammogram. WAC 284-43-250(1) lists mammograms as a women's direct access to health care procedure. Members do not need a referral for this service.

Section F states that an authorization must be obtained for emergency services. RCW 48.43.093(1)(a) states that no referral is needed for treatment to screen and stabilize the member in emergency situations. This language is in violation of this statute.

The following exceptions were noted:

Provider Contract Standard #1: All provider contract forms must be filed and approved by the Office of Insurance Commissioner prior to use. All provider contract forms must contain and adhere to prescribed standards. Reference: RCW 48.44.070, WAC 284-43-320 through WAC 284-43-340.

Findings: Failed.

The following illustrates those contracts that were not filed prior to use as required by RCW 48.44.070:

Contract	Total Population	Total Reviewed	# of Violations
WA Generic	32	32	0
OR Generic	7	7	7
DMG	7	7	3
Total	46	46	10

78.3% compliance. See Appendix XIX.

The following illustrates those contracts that did not contain hold harmless and insolvency language as required by WAC 284-43-320 through WAC 284-43-340:

Contract	Total Population	Total Reviewed	# of Violations
WA Generic	32	32	0
OR Generic	7	7	7
DMG	7	7	0
Total	46	46	7

84.8% compliance. See Appendix XX.

Provider Contract Standard #2: The definition of emergency medical condition in a provider contract must comply with required definitions. Reference RCW 48.43.005(11) and WAC 284-43-130(6).

Findings: Failed.

The following illustrates the violations noted by the examiners during review of the provider contracts:

Contract	Total Population	Total Reviewed	# of Violations
WA Generic	32	32	3
OR Generic	7	7	0
DMG	7	7	2
Total	46	46	5

89.1% compliance. See Appendix XXI.

CLAIMS

During the examination period, the Company converted its claims processing to a new system and revised its process for handling claims. In addition, PCW added several delegated medical groups (DMG) to process claims from members enrolled in their respective groups. These changes have decentralized claim processing responsibility. This report addresses claims processing in two sections: PCW processed claims and DMG processed claims.

PCW Claims

All point of service and non-DMG risk claims are processed by PCW. At the beginning of the examination period, claims processing took place at PCW's offices in Mercer Island. In mid-1997, claims processing was moved to the combined Northwest Customer Service Center in Hillsboro, and processing was combined with PacifiCare of Oregon. Claims were also moved to the NICE system, which created lengthy delays in processing and numerous complaints.

Paper claims are received in the Northwest Customer Service Center mailroom. The claims are manually sorted and any non-claim items are routed to the appropriate area for handling. Claims are then sent via overnight mail to the imaging center in Anaheim, California where they are scanned into the NICE system. A report is generated showing claims assigned to each processor. Examiners work on the claims assigned to them by the NICE system and view the actual claim form online. This process takes about four (4) days. The Company received about 3,000 claims per day for the combined PCO/PCW operation. More are received for Washington than Oregon. The reason for this is that there are more delegated medical groups that process claims in Oregon than there are in Washington. PCW is implementing a scanning system onsite at the Northwest Customer Service Center in Hillsboro. The scanning system will eliminate the process of sending the claims to Anaheim for imaging. Testing was being done while the examiners were onsite with implementation of the system to begin November 2001.

Out-of-network point of service plans are manually paid on the HCPS system. These are combined for Oregon and Washington claims.

At the end of 1998, the Company averaged an inventory of 20,000 to 30,000 claims on hand. It takes approximately ten (10) days to process this number of claims. This number is down from mid-1998 when backlog averaged 100,000 claims on hand.

The Company breaks down claims into three (3) categories:

- WA Division 1 includes those claims for HMO/Point of Service plans for providers within the network, Clark County only.
- WA Division 2 includes those claims for HMO/Point of Service plans for providers within the network, all other Washington counties.
- HCPS includes those claims for all Washington counties that are out-of-network point of service claims.

The total claim counts for the period 1996 through 1998 are:

Type of Claim	1996*	1997	1998	Total
NICE, WA Div 1	25,178	20,194	21,850	67,222
NICE, WA Div 2	48,910	248,273	178,684	475,867
HCPS	2,272	20,458	4,620	27,350
Total	76,360	290,922	207,152	574,434

*1996 claims totals are for July through December only.

The examiners asked the Company to explain the reason for such a large decrease in claims for 1998. The Company's explanation was that it added 20 delegated medical groups in 1998. These groups accept the responsibility for processing claims that are not point of service

claims. As such, the claims are not counted in the Company's claim totals. Delegated medical groups are discussed in the next section of this report.

The Company maintains a procedures manual online. A diskette containing the manuals in use during the examination period was given to the examiners for review. The examiners found the manual to be complete and to contain procedures for processing all types of claims. It is updated as needed.

Claim Review

Because of the number of claims available in the total population, the examiners requested that the Company randomly select the claim files to be reviewed. The examiners asked the Company to select 282 NICE claims and 18 HCPS claims from the period 1996 through 1998. The sample size was chosen based on NAIC standards as stated in the Market Conduct Examiners Handbook.

The examiners found errors on 16 of the 300 claims. Those errors fell into the following categories:

- One (1) claim reviewed did not have all charges on the bill entered into the system. The Company states that this was because part of the bill contained risk charges for a delegated medical group. The processors were inconsistent in entering this type of information into the system.
- The examiners found one (1) claim with an earlier receive date than the date entered into the system. The Company stated that this happens when the claim goes to a medical group and then is forwarded to PCW. This practice is no longer occurring. PCW now enters the earliest receive date into the system. If a claim is sent to medical group and then forwarded to PCW, the date that the medical group received the claim is the date entered.
- In two (2) instances, a claim was entered into two (2) systems and paid from both systems. Refunds were requested in both cases but were never received.
- One (1) claim was paid once as a fee for service claim and paid again as capitated. The Company did not recover the fee for service payment.
- On three (3) claims, the check was returned to the Company. The Company did not investigate to determine why the checks had been returned. The claims were either reversed or the provider was paid again. These situations all involved coordination of benefits (COB) claims that were paid incorrectly.
- There were two (2) claims where PCW incorrectly determined that it was primary for COB.

- When there is dual PCW coverage in a managed care plan, the Company does not record COB savings for the secondary coverage. The examiners also found that one (1) of these claims had been incorrectly processed as primary under the secondary coverage. The OIC's concern was that there was no tracking of COB savings. There were three (3) claims in this category. When asked for an explanation, the Company stated in response to one (1) of the claims:

“The COB savings realized under one file can be transferred to another file only by reprocessing the claims under each file, issuing additional payments and obtaining refunds. For this member, we did not do this for several reasons. It is unlikely we'd need to pay from COB savings of this member because the services covered under each plan are very similar and there are few out-of-pocket expenses under either plan. We would create work and confusion for the providers by sending additional payments for charges already paid in full and then requesting refunds for the same charges. However, any examiner can see the updated comments and realize an error had been made in processing and tracking COB savings. If an examiner believes COB savings should be used for any claim, the examiner can take the steps necessary to transfer COB savings to the proper secondary file and pay from COB savings as appropriate.”

- On one (1) claim, it took seven (7) months for the COB investigation to be completed. The Company stated that this was due to a claims backlog.
- There were two (2) instances of data entry errors that created delays and incorrect payments. In one (1) situation, the member was entered twice into the system and caused the claim to be paid under the wrong member. The other situation was that the claim information was incorrectly entered into the system and the claim was denied.

The examiners also reviewed an additional sample of 50 claims that was randomly selected using ACL auditing software and NAIC Market Conduct Examination Standards. The sample was selected from a population of 8,542 claims received in the month of May 2001. The examiners noted a marked improvement in claim processing accuracy.

The Company also outsources claim processing to a facility in Ireland. The workflow for claims processed in Ireland is identical to claims processed at the Northwest Customer Service Center. “Clean” claims (claims that do not require additional information for processing) are adjudicated by Ireland staff. If additional work is required on a claim, Ireland will forward it to Hillsboro for processing. Separate claims data for Ireland is not maintained by PCW. All of the claims data is inclusive. Daily random audits of two to five percent of the workflow are performed. To assure continuity of claims processing, senior claims personnel in Hillsboro are in constant contact with personnel in Ireland via conference call and email.

Delegated Medical Group Claims

PacifiCare of Washington shares risk with some of their larger medical groups. At the start of the examination period, there were only two (2) delegated medical groups (DMGs). In 1997 and 1998, the Company added several DMGs in Washington. By the end of 1998, there were 20 active DMGs. At the end of the exam period, there were 12 DMGs – two (2) in Clark County and ten (10) located in the other active counties of Washington.

Each DMG is a network of providers. The Company contracts with each DMG. Each contract is specific for that group and outlines what risk is assumed by the Company, the hospital, and the medical group. The DMGs do most of the administrative and customer service work as part of the agreement. This includes claim payment, utilization management, provider contracting, credentialing, and customer service. Complaints are handled at the PCW/PCO Northwest Customer Service Center. If a DMG gets a claim that is not in its risk pool, the claim is sent to the appropriate party. Examples of non-DMG claims are fee for service claims on commercial members, mental health benefits, skilled nursing facility services, and some hospital services. DMG contracts can be for only one type of claim, such as professional or facility, or can be for all types of claims. Some DMGs use third party administrators for claim payment while others employ their own staff for claim payment.

New DMGs must go through a screening process. This includes onsite visits and evaluation of the DMGs operational processes. Once a group is approved, PCW audits monthly for the first 90 days. The first review is detailed and looks at benefit set up and reimbursement procedures. The second review includes benefit payments, provider reimbursement, and claim turn-around times. The last review looks at all aspects of the DMGs areas of responsibility. After the third review, PCW evaluates if the DMG is meeting standards and if the relationship should continue. If the Company notices areas that need improvement, it sets standards for improvements and monitors progress. If no improvement is noted, the result could be termination of the delegated entity. PCW provided the examiners with audit criteria and auditing tools that are used when reviewing the DMGs. The examiners found the materials to be extensive and thorough.

After the initial period, audits are conducted annually. The DMGs are required to submit monthly claim reports showing items such as turn-around time, number of claims received, number of claims processed, and number of claims denied. If the results on the monthly report are not within PCW established guidelines, the Delegated Claims manager discusses the results with the DMG and develops an action plan to correct the problem area. If improvement is not noted within the action plan time line, corrective action up to termination of delegated status may be taken.

The examiners selected four (4) DMGs for review. The examiners were onsite for the claim review process and worked with the DMG personnel to complete the sample claim review process. The DMGs reviewed were Vancouver Clinic, Memorial Clinic Health Network, Puget Sound Physicians Association, and Physicians of Southwest Washington.

Vancouver Medical Clinic: Vancouver Medical Clinic (VMC) has been a DMG since 1996. VMC is affiliated with Southwest Washington Medical Center. The managed care office is part of the clinic and shares its computer system with the Clinic. When a patient visits a Vancouver Medical Clinic provider, the encounter is automatically entered into the system. There are paper claims only for referrals outside of the clinic or for risk services. When the examiners asked to see history files for items such as denial letters, they were given the patients' files from the medical clinic. Oversight of the Vancouver Medical Clinic is through PCO rather than PCW because it is located in Clark County. The examiners found the claim turn-around time at VMC was well within the expectations of PCW.

Memorial Clinic Health Network: Memorial Clinic Health Network (MCHN), which became a DMG on March 1, 1996, was the administrative arm of the Memorial Clinic in Olympia. MCHN contracted with the providers at Memorial Clinic. PCW's contract is with MCHN. All claims except Secure Horizons (Medicare), chiropractic, out-of-area and point of service were paid through the claims processors at MCHN. MCHN received enrollment/eligibility information for PCW twice a month and calls for updated information were completed as needed. In 1998, MCHN migrated to a new computer system. Because of problems with the system migration, claim turn-around time was not within guidelines for PCW delegated medical groups. Throughout the examination period, and specifically during the system migration, PCW worked with MCHN in an effort to correct processing problems. PacifiCare conducted seven (7) audits during the examination period. Five (5) of these audits occurred between 1998 and 2000. As a result, MCHN was placed on two (2) corrective action plans during this time period. Additionally, PCW placed a contract employee onsite at MCHN one (1) to two (2) days per week between February 2000 and April 2000 to research compliance issues to affect improved compliance standards.

MCHN ceased operations June 30, 2000. The Company states that the dissolution of MCHN had little impact to claims processing and the termination of the DMG was organized. PCW was kept well informed of the operations during the dissolution. Most of the MCHN membership was absorbed by other DMGs alleviating any large influx of claims processing by the Company directly.

Physicians of Southwest Washington: Physicians of Southwest Washington (PSW) became a DMG in January 1, 1998. Although PSW had been a provider network for PCW for some time, they had never handled claim administration until becoming a DMG. During the examination, PCW was the only carrier for which PSW acted in this capacity. The examiners noted many problem areas in the claim administration for PSW. In reviewing claims for the period 1996 through 1998, the examiners found that PSW was not accurately processing coordination of benefits. PSW paid all claims as primary and did not keep any savings information. If a member had dual coverage through PSW, the entire claim would be paid under the primary coverage and no claim information was entered for the secondary coverage. The result of this is that claim numbers were understated. PCW provided the examiners with a copy of PSW's

coordination of benefits report. Based on the information provided, it appears that PSW is now processing coordination of benefits correctly and maintaining information on COB savings.

Puget Sound Physicians Association: Puget Sound Physicians Association (PSPA) was a delegated group located in Federal Way, Washington. It was affiliated with Provider Service Inc. PSPA became a delegated group on June 1, 1998 and ceased operations October 2000. PSPA processed both commercial and Secure Horizons claims. When PSPA ceased operations, PCW absorbed 30,000 claims for processing. The largest portion was Secure Horizons business.

The Company passed the following Claims Standards with comment:

Claims Standard #1: The Company administers Coordination of Benefit provisions as required. Reference: Chapter 284-51 WAC.

Total Population: 582,976 (1996 to 1998, May 2001)
Sample Size: 350
Number of Violations: 9
Percent in Compliance: 97.4%

Claims Standard #2: The Company shall pay or deny 95% of all claims within 60 days of receipt. Reference: WAC 284-43-321(2)(a)(ii). (*Effective July 1, 2000*)

Total Population: 8,542 (May 2001)
Sample Size: 50
Number of Violations: 2
Percent in Compliance: 96%

See Appendix XXII for a listing of claims errors.

INSTRUCTIONS

	INSTRUCTIONS	PAGE #
1	The Company is instructed to immediately cease the use of <u>The HMO Plan</u> brochure in its marketing efforts to the employees of King County. The Company is not registered as a health maintenance organization as required by RCW 48.46.027(1).	9
2	The Company is instructed to publish and maintain its advertising materials in accordance with WAC 284-50-010 through WAC 284-50-230 and RCW 48.44.110 through RCW 48.44.140.	9
3	The Company is instructed to respond to communication from the OIC within 15 business days of receipt of correspondence to assure compliance with WAC 284-30-650.	13
4	The Company is instructed to ensure that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way. These actions will assure compliance with RCW 48.44.011 and RCW 48.17.060(1) and (2).	15
5	Agents are to be appointed prior to the Company allowing them to solicit business in order to comply with RCW 48.17.160(1).	15
6	The Company is instructed to file all contract forms and rates with the OIC prior to use in order to comply with RCW 48.44.040 and WAC 284-43-920.	17
7	The Company is instructed to ensure that all contracts contain mandated benefit provisions and conform to prescribed format standards as required by Chapters 48.43 and 48.44 RCW, Chapters 284-43, 284-44, 284-51, 284-52, and 284-53 WAC.	19 through 23
8	The Company is instructed to file, obtain approval, and include prescribed standards in its provider contract forms to assure compliance with RCW 48.44.070 and WAC 284-43-320 through WAC 284-43-340.	26
9	The Company is instructed to include the definition of emergency medical condition as described in RCW 48.43.005(11) and WAC 284-43-130(6) in their provider contracts.	27

RECOMMENDATIONS

	RECOMMENDATIONS	PAGE #
1	It is recommended that the Company maintain adequate, accessible, consistent and orderly records in order to facilitate the examination process as required by RCW 48.03.030(1) and RCW 48.05.280.	9 & 16
2	The Company is instructed to revise its complaint denial letters to reflect responsibility for the actions and decisions of its contracted providers.	12
3	It is recommended that the Company administer Coordination of Benefits provisions in accordance with Chapter 284-51 WAC.	33

	RECOMMENDATIONS	PAGE #
4	It is recommended that the Company pays or denies 95% of all claims within 60 days of receipt to assure compliance with WAC 284-43-321(2)(a)(ii).	33

SUMMARY OF STANDARDS

Company Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Company must facilitate the examination process by providing its accounts, records, documents, and files to the examiners upon request. (RCW 48.03.030(1) and RCW 48.44.145(2))	8	X	
2	The Company is required to be registered with the Office of Insurance Commissioner prior to acting as a health care service contractor in the State of Washington. (RCW 48.44.015(1))	8	X	
3	The Company is required to report to the OIC any changes to its registration documents, including Articles of Incorporation, Bylaws, and Amendments at the same time as submitting such documents to the Secretary of State. (RCW 48.44.013)	8	X	
4	The Company must maintain adequate, accessible, consistent and orderly records. (RCW 48.05.280)	9	X	
5	No person in this state shall act as or hold himself out to be a health maintenance organization as defined in RCW 48.46.020 without being duly registered with the Commissioner. (RCW 48.46.027(1))	9		X

Advertising:

#	STANDARD	PAGE	PASS	FAIL
1	The Company's advertising materials are published in accordance with all Washington Advertising Regulations. (WAC 284-50-010 through WAC 284-50-230 and RCW 48.44.110 through RCW 48.44.140)	9		X

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	The Company has filed a copy of its procedures for review and adjudication of complaints with the OIC. (RCW 48.43.055)	13	X	
2	The Company has a means to disclose to an enrollee or prospective enrollee a copy of the grievance procedures for claims and for service denials as well as dissatisfaction with care. Effective until July 1, 2001. (RCW 48.43.095(1)(h))	13	X	

#	STANDARD	PAGE	PASS	FAIL
3	The Company complies with procedures for health care service review decisions. Effective December 30, 1999. (WAC 284-43-620)	13	X	
4	Response to communications from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. (WAC 284-30-650 and Technical Advisory T 98-4)	13		X
5	The Company maintains a fully operational, comprehensive grievance process. Effective July 1, 2001. (RCW 48.43.530)	13	X	
6	The Company provides enrollees access to independent review services to resolve disputes. Effective July 1, 2001. (RCW 48.43.535)	13	X	

Agent Activity:

#	STANDARD	PAGE	PASS	FAIL
1	The Company ensures that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way. (RCW 48.44.011 and RCW 48.17.060(1) and (2))	15		X
2	The Company requires that agents be appointed to represent the Company prior to allowing them to solicit business on behalf of the Company. (RCW 48.17.160(1))	15		X

Rate and Form Filing:

#	STANDARD	PAGE	PASS	FAIL
1	All contract forms and all rates have been filed with the Office of Insurance Commissioner prior to use. (RCW 48.44.040 and WAC 284-43-920)	17		X

Contracts and Member Handbooks:

#	STANDARD	PAGE	PASS	FAIL
1	All contracts must contain mandated benefit provisions and conform to prescribed format standards. (Chapters 48.43. and 48.44 RCW and Chapters 284-43, 284-44, 284-51, 284-52, and 284-53 WAC)	19		X

Provider Contracts:

#	STANDARD	PAGE	PASS	FAIL
1	All provider contract forms must be filed and approved by the Office of Insurance Commissioner prior to use. All provider contract forms must contain and adhere to prescribed standards. (RCW 48.44.070 and WAC 284-43-320 through WAC 284-43-340)	26		X
2	The definition of emergency medical condition in a provider contract must comply with required definitions. (RCW 48.43.005(11) and WAC 284-43-130(6))	27		X

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The Company administers Coordination of Benefit provisions as required. (Chapter 284-51 WAC)	33	X	
2	The Company shall pay or deny 95% of all claims within 60 days of receipt. Effective July 1, 2000. (WAC 284-43-321(2)(a)(ii))	33	X	

APPENDIX I
Items Not Included in the Advertising File
WAC 284-50-200

Item	Description
POW/95354/10-98CG	Clark County Commercial Plans Enrollment Kit
POW/95308	Provider Directory effective 10/97
PO-95678 1/98	Enrollment/Change Form
POW/95561 10/97	\$5 Copay Rx Drug Benefit
POW/95354 12/97	Clark County Enrollment Kit
POW/95355 1/98	About PacifiCare
POW 95802 3/98	More About PacifiCare
POW/95308	Directory of PCP's
PO/95017 4/97	Mail Service RX Drug Program
POW/95723/1-98	\$10/\$15/\$30 Copay RX Drug Benefits
PO/957001-98	PacifiCare of Oregon Summary of Benefits
9/18/96	Cassette/Radio Advertisement
WO #26629	Cassette/Radio Advertisement
	Internet Web Pages
	Health Beat Winter 1999
	Health Beat Fall 1998
	Health Beat Winter 1997
	Health Beat Fall 1997
	Health Beat Summer 1997
	Health Beat Winter 1996
	Health Beat Fall 1996
	Health Beat Spring/Summer 1996
	Health Beat Winter 1995
	Health Pregnancy Program Overview
	Stop Smoking Kit

APPENDIX II
Items in Violation of Advertising Regulations
WAC 284-50-010 through WAC 284-50-230

Code	Advertising Material	Violation
WAC 284-50-050(1) Form & content must not deceive the public	HCFA 323, PEBB Newspaper Ad	States there is “no premium to pay” in headline. Actually, cost depends on number of dependents
	The HMO Plan Brochure	States that there is no paperwork to fill out. Actually, if an out of area claim, forms must be completed and submitted for payment.
WAC 284-50-060(2) Prohibits use of certain words, including “comprehensive”	The PacifiCare Difference Brochure	Brochure states that the company offers “comprehensive health care benefit package.”
WAC 284-50-070(1) Requires that all exclusions & limitations be disclosed in advertising	The Choice Plan Brochure	Exclusions & Limitations are not included.
	The HMO Plan Brochure	
WAC 284-50-140(2) Advertising may not use implied endorsement of state employees	Newspaper Ad dated 11/5/96	Ad states “PacifiCare is the health plan of choice for state employees”.
WAC 284-50-120(1) The form number or identifying name must be used in all advertisements	The Choice Plan Brochure	The contract form number is not included in the brochure.
	The HMO Plan Brochure	
WAC 284-50-110(1) Ads using statistical information must show the source of the statistics	Broker Information Letter	Advertisements use statistical information about the size of the provider network or the number of members but do not state the source of this information. In addition, none of these are dated, so it is not possible to determine to which year the figures may apply.
	Business to Business Brochure	
	Letter from President Bowlus	
	Letter from President McWilliams	
	The Choice Plan Brochure	
	The HMO Plan Brochure	

Code	Advertising Material	Violation
	The Right Choice for Public Employees Brochure	
	Consumer Guide Summary	
	About PacifiCare Sheet	
	Internet Web Pages	

APPENDIX III
Complaint Files in Violation of WAC 284-30-650, Prompt Response Required

OIC Item #	Company Appeal #	# Days to Complete Response
27	25	18
40	4830	25
42	5001	20
43	5025	17
44	5031	17
47	5388	18
51	5825	32
55	6224	17
57	6484	33
59	6539	22
60	6665	26
61	6884	30
62	6848	18
63	6890	20
64	6980	33
65	7082	39
67	7111	16

APPENDIX IV

Agents Without Valid License and/or Appointment

A. Sold Groups

Agent Name	Resident/ Non- Resident	WA License Date	PCW Appointment Date	Group Effective Date
Hartman, Sheila	NR – OR	4/11/95	6/17/96	6/1/96
Clevidence, Chris		None	None	3/1/98
Moore, Grant	NR – OR	4/4/95	6/20/98 *	7/1/98
Gervais, Alan		4/13/81	9/11/97	10/1/96
Crofton, Larry		None	None	2/1/96
Corcoran, Brian	NR – OR	3/18/94	None	1/1/98
Hanson, Dale	NR – OR	6/18/90	2/19/99	12/1/98

*Termination of appointment date.

B. Quotes

Agent Name	Resident/ Non- Resident	WA License Date	PCW Appointment Date	Quote Date
Riggs, Alan M		4/15/76	None	6/1/98
Jones, Samuel	NR	3/19/91	None	4/1/96
Alpine Insurance Design		6/11/97	None	6/1/98
Windsor, Ronald	NR	9/23/92	2/1/98	6/1/96
Callister, Ann		None	None	9/1/97
Altman, Joan	NR	6/3/92	None	8/1/97
Green, Bradley D		2/12/90	None	5/1/96
Barney & Barney	NR	9/11/91	None	7/1/97
Benefax		8/20/91	None	1/1/97
Benefit Consultants	NR	3/27/91	9/4/98	8/1/97
Berkely Agency	NR – NY	10/28/91	None	5/1/98
Beyrouthy, Fadd	NR	12/5/83	None	1/1/97
Schultz, Bill		4/14/76	11/20/97	5/1/97
Voogd, Bill		5/14/91	None	4/1/96
Calhoun, Blaine	NR – OR	5/24/88	9/11/97	8/1/97
Johnston, Bob		4/8/71	None	10/1/98
Scoville, Brent		1/17/85	5/9/96	4/1/96
Brunkhorst, James		None	None	5/1/96
Buchanan, Bruce		1/8/98	9/17/98	4/1/98

Agent Name	Resident/ Non- Resident	WA License Date	PCW Appointment Date	Quote Date
Buck Consultants		6/10/97	2/19/99	1/1/98
Durkee, Charles R		10/1/70	None	1/1/96
Phillips, Debra		3/13/92	6/20/98 *	10/1/98
Cal-Surance	NR – CA	5/26/95	None	5/1/97
Campbell Galt & Newlands		3/26/75	9/3/97	4/1/97
Carney-Cargill		1/22/93	None	6/1/96
Manger, Caroline		2/11/87	None	7/1/97
Cecchini, Rickey	NR – OR	9/20/90	None	6/1/98
Chandler Frates & Reitz	NR – OR	10/11/94	None	5/1/96
Clark, Char		6/6/77	None	1/1/96
Tolman, Cherie		8/24/89	None	1/1/96
Chernoff, Alexander	NR – NY	3/26/99 **	None	8/1/98
CIS	NR – DE	8/19/96 **	None	6/1/96
Noridian Insurance Services	NR – ND	8/19/96 **	None	1/1/96
Coordinated Resources Group	NR – OR	5/21/94	9/3/97	4/1/97
Horton, Douglas		5/4/81	6/20/94 *	7/1/97
Gilliam, Dale		7/28/86	None	5/1/97
Daugherty & Company	NR – CA	9/30/97	None	3/1/98
Davidson, John J	NR – OR	11/21/94	4/15/97	2/1/97
Hamilton, Debbie		None	None	4/1/96
Moher, Della		9/7/89	6/20/98 *	9/1/98
Barney, Diane		5/5/86	10/18/99	5/1/96
Schlosstein, Brent		3/31/87	None	1/1/97
Everett, Don C	NR – CA	11/13/97 **	None	7/1/97
Golden, Jerome	NR – CA	11/2/92	None	6/1/96
Executive Financial Group	NR – OR	9/11/95	9/3/97	6/1/96
Farmers		11/5/91	None	6/1/96
Rogers, Barbara	NR – VA	11/10/97 **	11/10/97	5/1/97
Lawson, David K		12/24/79	12/15/98	2/1/98
Foy, Peter C	NR – CA	2/5/92	None	1/1/97
Michelman, Gail		6/5/81	None	6/1/96
Wyche, Gary	NR – OR	10/6/95	8/7/97	7/1/97
Roberts, Gavern B	NR – CA	6/20/97	None	7/1/97
Grant Nelson Group		1/14/93	None	11/1/97

Agent Name	Resident/ Non- Resident	WA License Date	PCW Appointment Date	Quote Date
Grosslight Insurance	NR – CA	1/23/98	None	9/1/98
Heffernan Peterson Insurance	NR – CA	4/12/93	None	5/1/97
Hewitt Associates	NR – IL	9/2/98	None	1/1/97
J&B Benefits Group		1/15/97	12/22/97	4/1/97
JD Fulwiler & Co	NR – OR	11/1/95	9/11/97	7/1/97
Miller, Jacquie		11/30/81	None	4/1/96
Piper, James		8/8/85	None	4/1/97
John F Throne Benefits Inc		6/2/92	6/20/98 *	12/1/98
Byrnes, John W		6/9/89	None	1/1/96
Lupton, Kent		2/5/74	None	7/1/97
Larry Sherwood & Associates	NR – OR	3/27/96	1/30/98	3/1/96
Eagle Financial		1/19/96	7/10/97	4/1/96
Lovitt & Touche Inc	NR - AZ	2/22/85	None	8/1/97
Mattecheck & Associates	NR – OR	1/25/96	8/25/97	7/1/97
McGee & Theilen Insurance	NR – CA	1/11/89	None	11/1/97
Mesirow Financial	NR – IL	1/13/92	None	1/1/97
Stilwell, Michael		1/12/89	None	5/1/96
Metcalf, Mike		10/1/80	None	6/1/97
Navigator Financial Group	NR	12/15/94	None	5/1/96
New England Financial Group		12/20/91	6/20/98 *	8/1/98
Northwest Administrators	NR – OR	7/25/96	None	9/1/98
Northwest Benefits Group	NR – OR	1/22/93	3/8/00	4/1/98
Ogishima & Assoc		6/17/80	None	9/1/97
Olympic Crest Insurance		4/5/96	9/3/97	12/1/96
Penland, Bobby	NR – CA	8/19/97	None	1/1/98
Pension & Benefit Insurance Services	NR – CA	4/28/98	None	3/1/98
Gunderson & Schmidt dba Bell Anderson	NR – OR	5/1/95	11/26/96	4/1/96
Evans, Mark		3/7/89	None	5/1/96

Agent Name	Resident/ Non- Resident	WA License Date	PCW Appointment Date	Quote Date
Wieking, James P	NR – CA	4/29/95	None	2/1/98
Saab, Conny	NR – CA	6/1/90	None	7/1/97
Rainier Pacific Insurance		4/21/92	None	7/1/98
Ruland & Mattingley	NR – CA	5/4/93	None	7/1/98
Truax, Stuart H	NR – CA	6/12/96 **	1/17/97	3/1/96
Saylor & Hill	NR – CA	1/4/93	None	1/1/98
Schecter, Philip G		2/10/99 **	None	2/1/98
Seibert, John E	NR – CA	2/10/99 **	2/10/99	6/1/98
Harbak, Sigurd		5/10/84	None	6/1/98
Hankins, Bruce M	NR – CA	11/24/98 **	None	7/1/97
Sound Benefit Services, Inc		8/23/95	None	3/1/96
Sound Financial Concepts		1/4/96	None	6/1/96
Hennagir, Sue		6/22/95	8/7/97	6/1/97
Sullivan Kelly Insurance	NR – OR	4/16/86	None	1/1/97
Fujiki, Hajime	NR – CA	4/6/98	None	4/1/98
Marr, Sally J	NR – TX	11/8/91	None	1/1/98
Demars, Ted		7/2/75	None	11/1/97
Boon Insurance Agency	NR – CA	6/19/90	None	10/1/97
The Linden Company	NR – CO	7/28/93	None	12/1/97
McMahon, Daniel		2/27/95	7/1/97	3/1/96
Olson, Wade R	NR – CA	6/5/92	9/23/98	3/1/98
Tinsley, Richard	NR – TX	2/22/96	None	3/1/97
Redeye, Tom		4/2/93	None	6/1/97
Tompkins, Deborah	NR – OR	6/18/86	None	1/1/96
Vitolo, Michael		6/26/84	10/20/98	3/1/97
Vrieling, Jon S		3/27/85	None	1/1/96
Ward, Richard		6/10/83	None	4/1/96
Teterud, Wesley		1/1/94	None	6/1/97
Yamasaki, Koihi	NR – CA	2/1/93	None	5/1/97
Zaborowski, Kathryn		5/30/90	None	1/1/97

* Agent Appointment Termination Date

** License Issued After Quote Date

C. Account Executives

Agent Name	Resident/ Non- Resident	WA License Date	PCW Appointment Date	Start Date, AE position
Allen, Christine M.	NR – OR	None	None	5/15/97
Balsiger, Renee	NR – OR	6/27/90	6/27/90	7/24/89
Benson, Sonja		9/26/96*	1/30/98*	9/15/97
Berg, Jane M.	NR – OR	2/5/91	None	3/7/94
Bitar, Julie	NR – OR	None	None	10/5/98
Bridwell, Whitney B.	NR – OR	None	None	5/10/96
Brosnan, Karen	NR – OR	None	None	8/14/95
Burke, Shannon O.	NR – OR	8/6/99	None	10/12/92
Burkhart, Susan	NR – OR	9/10/85	None	12/15/97
Chun, Susan S.	NR – OR	None	None	11/15/95
Clark, Kristen C.		6/14/96	6/14/96	5/17/93
Clark, Kristen Marie		None	None	9/17/90
Clipson, Vance A.		3/10/95	12/15/98	2/3/97
Duncan, Graham		12/26/97	12/26/97	6/16/97
Freeman, Jennifer F.	NR - OR	1/11/96	1/11/96**	10/23/95
Gans, Jarrod M.	NR – OR	1/18/95***	1/18/95***	2/3/92
Heeter, Tracey K.	NR – OR	6/25/99	None	10/23/92
Hickman, Helen	NR – OR	7/30/01	None	9/16/93
Holmes, James A.		10/9/00	10/9/00	8/27/00
Horne, Cydney		4/7/95	10/27/00	10/11/00
Hubbard, Gary	NR – OR	None	None	10/1/95
Huff, Rosella	NR – OR	None	None	10/1/86
Kennedy, LeAnn	NR – OR	None	None	5/7/00
Klock, Michelle L.	NR – OR	6/10/94	6/10/94****	10/27/88
Knox, David M.	NR – OR	12/29/00	12/29/00	7/31/00
Lacey, Sharon L.	NR – OR	None	None	4/1/95
Morrow, Laurie A.	NR – OR	None	None	11/11/91
Perin, Mary M.		3/6/97	3/6/97	11/27/95
Pottmeyer, Aaron	NR – OR	1/26/96	1/26/96	9/7/95
Rusch, Marjorie L.		10/2/85	3/12/98	3/1/95
Scott, Diana S.	NR – OR	2/14/96	2/14/96	10/1/95
Shore, Lindsay R.	NR – OR	None	None	3/29/98
Thompson, Sandra		5/10/93	None	7/19/99
Wells, Nancy		2/5/98	11/15/01	5/1/00

*License and appointment expired from 8/4/00 to 10/9/00.

**Appointment expired 6/20/00.

***Appointment expired 6/30/96. License expired 5/17/98.

****Appointment expired 3/6/95.

APPENDIX V QUOTES

Group	PCW	PCO/CC	Rate Over	Rate Under	Unfiled Benefit
Airport Welding & Muffler	X		X		
Alpha Pest Control (1996)		X	X		X
Alpha Pest Control (1997)		X	X		
Bay Point Properties		X		X	X
Camas School District (1996)		X		X	
Camas School District (1997)		X			X
Camas School District (1998)		X	X		
Cascade Pacific Flooring	X			X	
Circuit Systems	X		X		
City of Seattle, Dept of Admin	X				X
City of Seattle, Municipal Courts	X				X
City of Seattle, Office Mgmt	X				X
D & L Glass (1996)		X	*	*	X
D & L Glass (1997)		X		X	
Deer Park Health Center/Hospital	X				X
Evergreen School District		X	X		
From the Heart	X				X
Halme Excavating		X	X		
Holyrod Company	X			X	
Jimbo's Deli Mart (1996)		X	X		
Jimbo's Deli Mart (1997)		X	X		
Judd Sailor PLCC	X		X		
Minister & Glaeser Surveying		X			X
Mount Carmel Hospital	X				X
New Tradition Homes		X	X		
Olson Log Yard (1996)	X			X	
Olson Log Yard (1997)	X		X		
Quadrep Inc – Northwest		X		X	
SWCA – BCS Enterprises		X	X		
Synergy Systems	X		X		
Tri Valley Growers (1/98)	X		X		
Tri Valley Growers (7/98)	X		X		
Virginia Salon	X		*	*	
Weber Aircraft		X	*	*	
Totals	17	17	7 PCW 9 PCO 3 *	3 PCW 4 PCO 3*	6 PCW 5 PCO

- Underwriting information missing from file, unable to determine correct rates.

APPENDIX VI
Contract Pages in Violation of RCW 48.44.040
Contracts Not Filed

Form Number	Description	Oregon/Washington
END WM 10/96	Women's Direct Access Amendment	WA
NHPA-CV01 10/96	Endorsement for Conversion Contract	WA
No #	1998 Member Handbook	WA/OR
No #	Package Plan Summary	WA/OR
No #	POS Summary 3	OR
No #	POS 1 98	OR
No #	POS 2 98	OR
No #	POS 3 98	OR
No #	POS 4 98	OR
No #	POS 5 98	OR
No #	POS Summary 4	OR
No #	POS Summary 5	OR
POW/95128 5/96	Handbook	OR
POW/95128 6/97	Handbook	OR
POS/95128 8/98 CG	Handbook	OR
POW/95596 1/97	Handbook	OR
PW-98-AA-480	Summary of Benefits	OR
PW-98-BA-480	Summary of Benefits	OR
PW-98-CA-480	Summary of Benefits	OR
PW-98-CB-800	Summary of Benefits	OR
PW-98-DA-480	Summary of Benefits	OR
PW-98-DB-1000	Summary of Benefits	OR
PW-98-DE-3000	Summary of Benefits	OR
PW-98-EB-1500	Summary of Benefits	OR
WAPC RDR 980002 8/98 LP	Brochure	WA/OR

APPENDIX VII
Contracts in violation of RCW 48.44.210
Coverage for Over-Age Dependents

Form Number	Description	Washington/Oregon
POW/95128 5/96	Member handbook	OR
POW/95128 6/97	Member handbook	OR
POW/95596 1/97	Member handbook	OR
POW/95598 8/98 CG	Member handbook	OR

APPENDIX VIII

Contracts in Violation of RCW 48.44.212(2) Enrollment of Newborn Dependents

Form Number	Description	Washington/Oregon
POW/95128 5/96	Member handbook	OR
POW/95128 6/97	Member handbook	OR
POW/95128 8/98 CG	Member handbook	OR
POW/95596 1/97	Member handbook	OR

APPENDIX IX

Contracts in Violation of RCW 48.44.420(2) Enrollment of Adopted Children

Form Number	Description	Washington/Oregon
POW/95128 5/96	Member Handbook	OR
POW/95128 6/97	Member Handbook	OR
POW/95128 8/98 CG	Member Handbook	OR
POW/95596 1/97	Member Handbook	OR

APPENDIX X

Contracts in Violation of RCW 48.44.330 Coverage Required for Reconstructive Breast Surgery

Form Number	Description	Washington/Oregon
PW-98-AA-480	Summary of Benefits	OR
PW-98-BA-480	Summary of Benefits	OR
PW-98-CA-480	Summary of Benefits	OR
PW-98-CB-800	Summary of Benefits	OR
PW-98-DA-480	Summary of Benefits	OR
PW-98-DB-1000	Summary of Benefits	OR
PW-98-DE-3000	Summary of Benefits	OR
PW-98-EB-1500	Summary of Benefits	OR

APPENDIX XI
Contracts in Violation of RCW 48.44.342
Waive Preauthorization for Involuntary Mental Health Commitment

Form Number	Description	Washington/Oregon
No #	1998 Member Handbook	OR
PCW-POSB-97	POS Benefit Summary	OR
No #	POS Summary 3	OR
No #	POS 1	OR
No #	POS 2	OR
No #	POS 3	OR
No #	POS 4	OR
No #	POS 5	OR
No #	POS Summary 4	OR
No #	POS Summary 5	OR
POW/95128 5/96	Member Handbook	OR
POW/95128 6/97	Member Handbook	OR
POW/95128 8/98 CG	Member Handbook	OR
POW/95596 1/97	Member Handbook	OR
PW-98-AA-480	Summary of Benefits	OR
PW-98-BA-480	Summary of Benefits	OR
PW-98-CA-480	Summary of Benefits	OR
PW-98-CB-800	Summary of Benefits	OR
PW-98-DA-480	Summary of Benefits	OR
PW-98-DB-1000	Summary of Benefits	OR
PW-98-DE-3000	Summary of Benefits	OR
PW-98-EB-1500	Summary of Benefits	OR
WAPC RDR 980002 8/98 LP	Brochure	WA/OR

APPENDIX XII

Contracts in Violation of RCW 48.43.093(1)(a) Emergency Treatment

Form Number	Description	Washington/Oregon
No #	1998 Member Handbook	OR
POW/95128 8/98 CG	Member Handbook	OR

APPENDIX XIII
Contracts in Violation of RCW 48.43.115
Well-Baby Care

Form Number	Description	Washington/Oregon
48G-40C-1/96	Conversion Contract	Washington
48G-50C-1/96	Conversion Contract	Washington
48G-60C-1/96	Conversion Contract	Washington
NHPA-CV01 10/96	Conversion Benefit Summary	Washington

APPENDIX XIV
Contracts in Violation of RCW 48.42.100(3) and (5)(a)
Women's Direct Access

Form Number	Description	Code Section	Washington/ Oregon
48G-40C-10/97	Conversion Contract	(5)(a)	Washington
48G-50C-10/97	Conversion Contract	(5)(a)	Washington
48G-60C-10/97	Conversion Contract	(5)(a)	Washington
48MC 10/96	Member handbook	(5)(a)	Washington
48MC 10/97	Member Handbook	(5)(a)	Washington
48PS 10/96	Member Handbook	(5)(a)	Washington
48PS 10/97	Member Handbook	(5)(a)	Washington
48SG 10/97	Member Handbook	(5)(a)	Washington
END WM 1/96	Endorsement	(5)(a)	Washington
POW/95128 6/97	Member Handbook	(5)(a)	Oregon
POW/95596 1/97	Member Handbook	(5)(a)	Oregon
POW/95128 8/98 CG	Member Handbook	(3)	Oregon
PW-98-AA-480	Summary of Benefits	(5)(a)	Oregon
PW-98-BA-480	Summary of Benefits	(5)(a)	Oregon
PW-98-CA-480	Summary of Benefits	(5)(a)	Oregon
PW-98-CB-800	Summary of Benefits	(5)(a)	Oregon
PW-98-DA-480	Summary of Benefits	(5)(a)	Oregon
PW-98-DB-1000	Summary of Benefits	(5)(a)	Oregon
PW-98-DE-3000	Summary of Benefits	(5)(a)	Oregon
PW-98-EB-1500	Summary of Benefits	(5)(a)	Oregon

APPENDIX XV
Contracts in Violation of WAC 284-43-100(2), (3)(b), (4)
Women's Direct Access

Form Number	Description	Code Section	Washington/ Oregon
48G-40C-10/97	Conversion Contract	(2), (3)(b)	Washington
48G-50C-10/97	Conversion Contract	(2), (3)(b)	Washington
48G-60C-10/97	Conversion Contract	(2), (3)(b)	Washington
48MC 10/96	Member Handbook	(2), (3)(b)	Washington
48MC 10/97	Member Handbook	(2), (3)(b)	Washington
48PS 10/96	Member Handbook	(2), (3)(b)	Washington
48PS 10/97	Member Handbook	(2), (3)(b)	Washington
48SG 10/97	Member Handbook	(2), (3)(b)	Washington
END WM 1/96	Endorsement	(2), (3)(b)	Washington
END WM 10/96	Endorsement	(3)(b)	Washington
NHPA-CV01 10/97	Conversion Benefit Summary	(3)(b), (4)	Washington
No #	Package Plan Summary	(3)(b)	Washington
PCW-CV01 10/97	Conversion Benefit Summary	(3)(b), (4)	Washington
No #	POS Summary 3	(3)(b)	Oregon
No #	POS Summary 4	(3)(b)	Oregon
No #	POS Summary 5	(3)(b)	Oregon
POW/95128 6/97	Member Handbook	(2)	Oregon
POW/95596 1/97	Member Handbook	(2), (3)(b)	Oregon

APPENDIX XVI
Contracts in Violation of WAC 284-43-250(1), (2), (3)(b)
Women's Direct Access

Form Number	Description	Code Section	Washington/ Oregon
POW/95128 8/98 CG	Member Handbook	(3)(b)	Oregon
PW-98-AA-480	Summary of Benefits	(1)	Oregon
PW-98-BA-480	Summary of Benefits	(1)	Oregon
PW-98-CA-480	Summary of Benefits	(1)	Oregon
PW-98-CB-800	Summary of Benefits	(1)	Oregon
PW-98-DA-480	Summary of Benefits	(1)	Oregon
PW-98-DB-1000	Summary of Benefits	(1)	Oregon
PW-98-DE-3000	Summary of Benefits	(1)	Oregon
PW-98-EB-1500	Summary of Benefits	(1)	Oregon

APPENDIX XVII

Contracts With Violation of WAC 284-44-030(1) and (3) Contract Appearance

Form Number	Description	Code Section	Washington/ Oregon
ADM 1/96	Administrative Agreement	(3)	WA
ADM 10/96	Administrative Agreement	(3)	WA
No #	1998 Member Handbook	(3)	WA/OR
No #	Package Plan Summary	(3)	WA
PCORWARX 15/50	Prescription Drug Rider	(3)	OR
PCW-POSB-97	POS Benefit Summary	(1)	OR
No #	POS Summary 3	(1), (3)	OR
No #	POS 1	(1), (3)	OR
No #	POS 2	(1), (3)	OR
No #	POS 3	(1), (3)	OR
No #	POS 4	(1), (3)	OR
No #	POS 5	(1), (3)	OR
No #	POS Summary 4	(1), (3)	OR
No #	POS Summary 5	(1), (3)	OR
POW TIER 10/96	Prescription Drug Rider	(3)	OR
POW TIER 10/98	Prescription Drug Rider	(3)	OR
POW TIER 3/96	Prescription Drug Rider	(3)	OR
POW TIER 3/98	Prescription Drug Rider	(3)	OR
POW TIER 5/96	Prescription Drug Rider	(3)	OR
POW TIER 5/98	Prescription Drug Rider	(3)	OR
POW TIER 7/98	Prescription Drug Rider	(3)	OR
POW TIER 8/96	Prescription Drug Rider	(3)	OR
POW TIER 8/98	Prescription Drug Rider	(3)	OR
POW/95128 5/96	Member Handbook	(1), (3)	OR
POW/695128 6/97	Member Handbook	(1), (3)	OR
POW/95128 8/98 CG	Member Handbook	(1), (3)	OR
POW/95229 REV 8/98	Hearing Aid Rider	(3)	OR
POW/95334	Vision Rider	(3)	OR
POW/95334 10/97	Vision Rider	(3)	OR
POW/95335	Chiro Rider	(3)	OR
POW/95524	Chiro Rider	(3)	OR
POW/95596 1/97	Member Handbook	(3)	OR
POW/95681 10/98	Chiro Rider	(3)	OR
POW-GENRX-3/96	Prescription Drug Rider	(3)	OR
POW-GENRX-10/96	Prescription Drug Rider	(3)	OR
POW-GENRX-3/98	Prescription Drug Rider	(3)	OR

Form Number	Description	Code Section	Washington/ Oregon
POW-GENRX-5/96	Prescription Drug Rider	(3)	OR
POW-GENRX-5/98	Prescription Drug Rider	(3)	OR
POW-GENRX-8/96	Prescription Drug Rider	(3)	OR
POW-GENRX-8/98	Prescription Drug Rider	(3)	OR
WAPC RDR 980002 8/98 LP	Brochure	(3)	WA/OR

APPENDIX XVIII

Contracts in Violation of WAC 284-44-040(7) Contracts With Provisions That Delay Claim Payment

Form Number	Description	Washington/Oregon
48MC 10/97	Member Handbook	Washington
48PS 10/97	Member Handbook	Washington
48SG 10/97	Member Handbook	Washington

APPENDIX XIX

Provider Contracts in Violation of RCW 48.44.070 Not Filed

FORM NUMBER	DESCRIPTION
Vanc/Com/OR (11/17/94)	Medical Group Services Agreement
L:\Masters\Spec 2-96.con (1-97)	Specialty Physicians Services Agreement
P/lab/con (7/27/97)	Laboratory Services Agreement
C/SW WA/hosp com (2/2/94)	Hospital Services Agreement
C/ancill/FtVanc.SNF (1/27/95)	Skilled Nursing Facility Agreement
DME master (97)	Rehabilitative Disposable Products and Durable Medical Equipment Provider Agreement
Steph/Vision/Vancouver Contac.con (1/13/95)	Vision Service Agreement
MG01-Memorial (6/94)	Medical Group Service Agreement
TTH6/98v.3 Final 1998-1999 Language (4/03/97)	Medical Group/IPA Services Agreement (Professional Capitation)(Puget Sound Physicians Association)
No #	Medical Group/IPA Services Agreement (Professional Capitation)(Puget Sound Physicians Association)

APPENDIX XX

Provider Contracts in Violation of WAC 284-43-320(2)(a)-(f) Provider Contracts Shall Contain Required Provisions

Form Number	Description
Vanc/Com/OR (11/17/94)	Medical Group Services Agreement
L:\Masters\Spec 2-96.con (1-97)	Specialty Physicians Services Agreement
P/lab/con (7/27/97)	Laboratory Services Agreement
C/SW WA/hosp com (2/2/94)	Hospital Services Agreement
C/ancill/FtVanc.SNF	Skilled Nursing Facility Agreement
DME master (97)	Rehabilitative Disposable Products and Durable Medical Equipment Provider Agreement
Steph/Nision/Vancouver Contac.con (1/13/95)	Vision Service Agreement

APPENDIX XXI

Provider Contracts in Violation of RCW 48.43.005(10) Contracts Shall Contain the Required Definition of Emergency Medical Condition

Form Number	Description
HAS-004-OIC (4/98)	Health Services Agreement (Global Capitation)
MCIPA-004-OIC (1/98)	Medical Group/IPA Services Agreement (Professional Capitation)
HAS-004-OIC (1/95)	Hospital Services Agreement (Per Diem)
TTH6/98v.3 Final 1998-1999 Language (4/3/97)	Medical Group/IPA Services Agreement (Professional Capitation)(Physicians of SW WA)
No #	Medical Group/IPA services Agreement (Professional Capitation) (Puget Sound Physicians Association)

APPENDIX XXII
Claims Processing Errors
Coordination of Benefits Violations (Chapter 284-51 WAC)
Timeliness of Payment Violations (WAC 284-43-321(2)(a)(ii))

OIC ID #	CLAIM #	PROCEDURE	COB	TIMELINESS
24	163216-02-012	X		
90	2758267-01-006	X		
92	2634679-02-012		X	
149	2639468-04-005	X		
161	2623756-06-023		X	
183	3133622-01-011	X		
195	2613656-01-049	X		
201	2639901-02-007		X	
203	2623941-05-012		X	
231	2611755-06-007		X	
245	2613827-04-002		X	
265	2639288-01-030		X	
283	66581		X	
292	97287		X	
6 (5/01)	2701986-04-023			X
41 (5/01)	4984424-01-015			X
TOTAL		5	9	2